

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

Southern Star Central Gas Pipeline, Inc.

Docket No. RP03-470-000

ORDER ACCEPTING AND SUSPENDING TARIFF SHEETS
SUBJECT TO REFUND AND CONDITIONS

(Issued May 30, 2003)

1. On May 2, 2003, Southern Star Central Gas Pipeline, Inc. (Southern Star)¹ filed tariff sheets² to provide an alternative cash-out pricing index to address system imbalances in the event that Inside FERC's Gas Market Report does not publish a price for Southern Star. The Commission accepts and suspends Southern Star's tariff sheets effective May 15, 2003, subject to Southern Star filing revised tariff sheets within 15 days of the date this order issues and to refund and conditions, as discussed below. This conditional acceptance provides customers with an alternate cash-out price index which will allow the cash-out mechanism to continue to function consistent with Commission policy.

The Instant Filing

2. Southern Star's existing tariff permits shippers to cash-out their monthly imbalances (and certain other imbalances) based on an index price. Imbalances in excess of ten percent of a shipper's scheduled volumes are cashed out pursuant to a tiered mechanism in which shippers pay or receive amounts equal to varying percentages of an index price depending on the level of imbalance. Southern Star's tariff provides that the index price is the spot market price applicable to Southern Star as published in the first issue of Inside FERC's Gas Market Report for the month in which the imbalances occurred. Southern Star

¹Williams Gas Pipeline Central, Inc., filed a name change to Southern Star Central Gas Pipeline, Inc., with the Commission to become effective May 1, 2003.

²First Revised Sheet No. 153, Second Revised Sheet No. 244, and Second Revised Sheet No. 246, to FERC Gas Tariff, Original Volume No. 1.

proposes revised tariff sheets to provide an alternative cash-out pricing index to use in the event that the currently referenced index is not published. The proposed tariff language is as follows:

If Inside FERC's Gas Market Report does not publish a price for Southern Star, then the spot market price shall be the price applicable to Southern Star as published in the first issue of the month of Platt's Gas Daily.

3. Southern Star states that the need for an alternative price index recently arose when the Inside FERC's Gas Market Report failed to publish a price for Southern Star for March 2003. Southern Star requests a May 15, 2003, effective date for its proposed tariff sheets and states that it intends to cash-out imbalances from its March 2003 business, which are not resolved by May 31, 2003, using its proposed alternate index.

Notice, Interventions, Comments and Protests

4. Notice of the filing was issued on May 7, 2003, providing for the filing of interventions and protests in accordance with Section 154.210 of the Commission's regulations, 18 C.F.R. § 154.210 (2003). Pursuant to Rule 214, 18 C.F.R. § 385.214 (2003), all timely filed motions to intervene are granted and any motions to intervene out-of-time filed before the issuance of this order are granted. Granting late intervention at this stage of the proceedings will not disrupt the proceedings or place undue additional burdens on existing parties. Missouri Public Service Commission (MoPSC) protested the filing. Duke Energy Trading and Marketing, L.L.C. (DETM) and City Utilities of Springfield, Missouri (CU) filed comments.

5. MoPSC argues that the proposed alternative cash-out index does not provide an accurate or adequate substitute for Inside FERC's Gas Market Report index price. MoPSC asserts that the proposed spot market price gives only a one day look at the price of gas on Southern Star's system, while the index previously used provides an average index price for 30-day contracts bid during the last five business days of the previous month. MoPSC further asserts that the proposed first-of-the-month one-day price is extremely volatile and can differ significantly from the average of 30-day contract prices for the month. MoPSC asserts that use of the proposed price would likely create a situation in which suppliers and shippers may either game the system or, alternatively, pay penalties based upon the use of unrepresentative commodity prices. MoPSC presents an analysis that indicates that the proposed alternate index price can differ significantly from the 30-day index prices for the month. MoPSC asserts that the difference between the two numbers is too significant for Southern Star's proposal to provide an effective remedy.

6. MoPSC asserts that an alternate index price should be as accurate a substitute as possible for Inside FERC's Gas Market Report's index price. MoPSC proposes an alternative regional index price. MoPSC states that Gas Daily groups pipeline data geographically by region and includes Southern Star as an Oklahoma region pipeline. MoPSC states that, while Inside FERC's Gas Market Report did not include a price for Southern Star in March, it did include prices for other Oklahoma region pipelines. MoPSC proposes that Southern Star use an average price of the first-of-the month index prices published in Inside FERC's Gas Market Report for those pipelines as categorized by Gas Daily as Oklahoma region pipelines, if a price is not listed for Southern Star in any given month in Inside FERC's Gas Market Report.

7. MoPSC's analysis, which covers the six months from November 2002 through April 2003, indicates that its proposed index price is a far better substitute and decidedly more indicative of the index price that would have been used if there were bids reported on Southern Star's system for March 2003. MoPSC asserts that the difference between Southern Star's index price and the average of the other pipelines in the Oklahoma region ranges from -\$0.088 MMBtu to +\$0.027 MMBtu. MoPSC further asserts that, in comparison, Southern Star's proposed use of the March 3, 2003, Gas Daily midpoint price of \$9.825 MMBtu would be \$1.205 MMBtu higher than the average of the pipeline index prices reported for Oklahoma region pipelines in Inside FERC's Gas Market Report for the March 2003.

8. DETM expresses concern regarding the use of a single daily price posting for monthly valuation purposes rather than other methods which are more reflective of a monthly price proxy for Southern Star, for example, an alternative price which one could derive based on an average for all days in a given month, or average based on regional/competitor pipeline monthly prices, or using a monthly price from a different publication.

9. CU asserts the industry faces a serious pricing index problem. Moreover, CU states it is generally recognized that an independent third party should collect and verify publicly available pricing data, subject to FERC oversight. CU further asserts that it does not oppose Southern Star's proposal to resolve an immediate problem, so long as Southern Star understands this the approach is not a long term solution. Finally, CU believes that the Commission should condition its acceptance of this proposal to its determination of a permanent solution to the pricing index issue.

Discussion

10. The Commission accepts and suspends Southern Star's proposal to be effective May 15, 2003, subject to refund and the conditions discussed below. Southern Star proposes a

single day price from Gas Daily as its alternative index price. The Commission has previously rejected the use of prices for a single day for cashing out imbalances.³ The Commission finds that Southern Star's proposed use of a single day price for cashing out imbalances is unreasonable. The single day price can be extremely volatile and may not be appropriately representative of the cost of gas involved in the net monthly imbalances being cashed out since it can vary a great deal from the actual cost of gas during the broader period when the imbalances occurred, and such prices could be deemed to be a penalty because they may go beyond compensating the pipeline for its actual costs. The Commission previously found that weekly or monthly prices are more likely to be representative. Accordingly, the Commission rejects Southern Star's proposed alternative price index. The alternative regional price index proposed by MoPSC is consistent with Commission policy, since it uses prices for more than a single day. Also averaging the prices for a number of pipelines in the same area should help to smooth out any unusual volatility in any single price. Therefore, we direct Southern Star to file revised tariff sheets within fifteen days of the date this order issues eliminating its alternative price index proposal and either (1) adopting MoPSC's alternative regional price index or (2) proposing an alternative price index which is consistent with the Commission policy expressed in prior orders.⁴

11. With respect to the concerns expressed by CU related to the use of price indices, the Commission is considering those issues on a generic basis in other proceedings. The Commission held a technical conference and parties have submitted comments in Docket No. AD03-7-000 to discuss issues related to the adequacy of natural gas price information. This includes how data are collected, how publicly available quotes are checked for authenticity and reliability, adequacy of coverage, what effort is made to determine whether the information received and published is complete or representative of its type of transaction, and what models best serve price discovery needs for natural gas markets. In addition, on April 30, 2003, in Docket No. PA03-1-000, et al., the Commission issued an order directing certain companies to show that they have corrected their internal processes for reporting trading data to the trade press or that they no longer trade natural gas at wholesale.⁵

³See, e.g., Texas Gas Transmission Co., 96 FERC 61,318 at 62,219-20, reh'g denied, 97 FERC ¶ 61,349 (2001).

⁴See, e.g., the Commission has accepted weekly or monthly average prices as more representative of costs (Southern Natural Gas Co., 74 FERC ¶ 61,230 (1996)).

⁵103 FERC ¶ 61,089 (2003).

Suspension

12. Based upon a review of the filing, the Commission finds that the proposed tariff sheets have not been shown to be just and reasonable, and may be unjust, unreasonable, unduly discriminatory, or otherwise unlawful. Accordingly, the Commission accepts the tariff sheets for filing, subject to refund, and suspends their effectiveness for the period set forth below, subject to the conditions set forth in this order.

13. It is the Commission's policy generally to suspend rate filings for the maximum period permitted by statute if preliminary study leads the Commission to believe that the filing may be unjust, unreasonable, or that it may be inconsistent with other statutory standards. See Great Lakes Gas Transmission Co., 12 FERC ¶ 61,293 (1980) (five-month suspension). It is also recognized however, that shorter suspensions may be warranted under circumstances in which suspension for the maximum period may lead to harsh and inequitable results. See Valley Gas Transmission, Inc., 12 FERC ¶ 61,197 (1980) (one-day suspension). Such circumstances exist here where the pipeline proposes to establish an alternative cash-out pricing index. Accordingly, the Commission will exercise its discretion to suspend the rates for a shorter period and permit the rates to take effect on May 15, 2003, subject to refund and subject to the conditions set forth in the body of this order and in the Ordering Paragraphs below.

The Commission orders:

(A) The revised tariff sheets listed in footnote no. 2 of this order are accepted and suspended to be effective May 15, 2003, subject to refund and conditions as discussed in the body of this order and the Ordering Paragraphs below.

(B) Within fifteen days of the date of this order issues, Southern Star is directed to file revised tariff sheets eliminating its alternative price index proposal and either (1) adopting MoPSC's alternative regional price index or (2) proposing an alternative price index which is consistent with the Commission policy expressed in prior orders, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.